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DOCUMENT RECORDS

COOPERATIVES

in the

AMERICAN PRIVATE ENTERPRISE SYSTEM



FARMER COOPERATIVE SERVICE / U. S. DEPARTMENT OF AGRICULTURE

**FARMER COOPERATIVE SERVICE
U.S. DEPARTMENT OF AGRICULTURE
WASHINGTON, D.C. 20250**

Farmer Cooperative Service conducts research; advises directly with cooperative leaders and others; promotes cooperative organization and development through other Federal and State agencies; and publishes results of its research, issues *News for Farmer Cooperatives*, and other educational material.

This work is aimed (1) to help farmers get better prices for their products and reduce operating expenses, (2) to help rural and small-town residents use cooperatives to develop rural resources, (3) to help these cooperatives expand their services and operate more efficiently, and (4) to help all Americans understand the work of these cooperatives.

Cooperatives in the American Private Enterprise System

by C. H. Kirkman, Jr.
Training Division

This story of cooperatives in the American private enterprise system shows how cooperatives fit into the organization and operation of our business system in supplying our family needs.

It suggests how an illustrated presentation can be developed to promote better understanding of the nature of cooperatives and how they contribute to our community welfare. Persons using this suggested program may wish to modify it to reflect more effectively situations existing in their respective communities.

The publication will help teachers, extension agents, and other adult leaders of youth increase the knowledge of young people about the American private enterprise system. The story it tells will be more effective if speakers become familiar enough with the written material to use their own words.

In addition, we suggest that students survey representative local business firms to help develop a better understanding of local business situations. Teachers, youth advisors, or leaders should guide the survey.

The survey should: (1) List various business firms in the area chosen; and (2) classify them as to type of business organization. It would be helpful for students to visit at least one business firm of each type to determine the following: How does the firm serve families in the community? Who owns it? Who selects the manager? Does the firm have a board of directors? If so, how do stockholders (owners) vote? Is the firm a cooperative? Is it a member of a cooperative? How are profits or savings divided? Under what laws does it operate?

Class tours may be arranged to one firm of each type in lieu of the survey. Teachers should accompany students on tours and should not attempt to take more than one class at a time.

Information covered in this publication can be used effectively before civic and other groups as a means of explaining the role of cooperatives in the American private enterprise system.

Artwork used throughout the story is part of a slide series or filmstrip. It is available on 35 millimeter color slides or filmstrip. Both are keyed to this publication. Sets of 48 slides (\$6.50) or 48 frame filmstrip (\$4.50) may be bought from the American Institute of Cooperation, 1200 17th Street, N.W., Washington, D.C. 20036.

This illustrated talk may be given by a team of speakers or by a single person. If given by a team, speakers A and B alternate in presenting their parts.

Group singing of "America" or "America the Beautiful" can provide a desirable program opening. Playing soft background music for the opening statement is effective.

Speaker A (boy suggested)

(Slide 1) We are fortunate to be citizens of a democratic nation. . . a nation where people are at liberty to satisfy individual needs and ambitions. . . a nation that affords freedom and opportunity.

Visitors from other lands are often surprised at developments and progress our people enjoy. They admire our homes, schools, churches, streets, and parks. They note the large percentage of American families sending their youth to technical schools and colleges. They observe ways average American families are offered opportunities for social development.

Their reactions make us realize we have much for which to be thankful. While our parents know how much work it took to get these advantages, younger generations tend to take our many conveniences for granted. Thus, it is helpful for us to understand how these things have been achieved.

Speaker B (girl suggested)

What has helped the United States build progressive communities and promote the social and economic well-being of our citizens? American private enterprise is one of the most significant contributors. (Stop music)

By our **American Private Enterprise System** we mean the business firms that sell goods and services and the legal climate in which they operate. Most business firms can be grouped into one of three types—(1) individual ownership, (2) partnership, and (3) corporations. The corporate type of business is divided into two kinds—ordinary corporation and cooperative corporation.

Our American private enterprise system is based on the belief that every citizen has the right to work and the right to own property. This belief encourages people to want to achieve, to be somebody, to own homes, to strive for success in their chosen occupations.

Speaker A

(Slide 2) Artist drawings and a number of ideas for this program have been taken from “How We Organize to Do Business in America” published by the Department of Rural Education of the National Education Association and American Institute of Corporation.

Speaker B

(Slide 3) **All Types of Services for the Family** are provided by our business world.



Our nation centers around families. Our American agriculture is largely a system of family-type farms. Life in our cities builds around families.

Imagine this is your family—father, mother, sister, brother.

(Slide 4) Your family needs food, clothing, shelter, and related goods and services. Providing these goods and services of everyday living is the basis for all business transactions.

Speaker A

(Slide 5) **All Types of Business Organizations** develop in **OUR COMMUNITY** to satisfy our family needs.

(Slide 6) Supplies and services for our family needs are provided by individual businessmen, partnerships, and corporations. We would like to examine each of the three types of business organizations with you.

(Slide 7) **Individually Owned Firms** are the most common business type.



Individual business transactions are the oldest form of trade. Most of our early merchants did business as individuals.

(Slide 8) Most present-day farming operations are conducted by individual farmers. Most of our town and rural stores are operated by individual businessmen.

Individual businessmen earn a living for themselves and their families by providing goods or services which people need, and for which they are willing to pay.

Individual businessmen are responsible for decision making, management, and providing capital for their organizations. They are personally liable for any debts of their business enterprises. When the owner of an individual business firm dies, the firm goes out of business, unless provisions have been made to pass it to someone else.

Speaker A

(Slide 9) **Partnerships**, our second type of business enterprise, are formed by two or more people agreeing to carry on a business enterprise jointly.



Partners generally share the responsibility of managing, financing, and operating the business firm. Each partner is responsible for any and all debts incurred by the partnership in its business operation.

Partners are often able to accomplish by joint action what one could not do alone. One may have experience, another youth and vigor, a third ample capital.

Partnerships, like individually owned business firms, make a living for their owners by providing goods or services. Earnings are divided among partners in accordance with terms of their partnership agreement, usually in proportion to the experience, money, and time each has invested.

A new partnership agreement must be made if one of the partners dies or withdraws from the firm or if a new partner is taken into the firm.

(Slide 10) Business partnerships are often formed by father and son, brothers, or trusted friends. Partnerships are often used in farming because investment needs in land, buildings, equipment, and livestock are increasing.

Parent and son partnerships provide one means of helping young men get established. Plans for such partnerships are usually laid early—often by the time youths complete their high school training.

Partnership agreements are usually in writing, to avoid possible misunderstanding. This is especially important when relatives not included in the partnership operations have an inherited interest in the business.

Speaker B

(Slide 11) **Corporations** are a third major type of business firm. There are two kinds of corporations—ordinary corporations and cooperative corporations.



A corporation is a group of people empowered by law to act as a single person. In effect it is an artificial person.

When businessmen want to form a corporation, they file articles of incorporation—usually with the State government. Articles are statements of the kind and scope of business the corporation will perform. The State issues the new corporation a charter when the articles meet requirements of laws governing corporations. The charter authorizes the corporation to organize, elect officers,

sell stock and perform other transactions necessary to conduct business. People investing in stock of the corporation are called stockholders.

Corporations have several advantages over partnerships. They can have many owners (stockholders); therefore, it is possible to get more money into the firm. Normally each stockholder risks only the amount he has invested, or agreed to invest, in share purchases. This is called limited liability. And changes in ownership do not interrupt the business operation.

Stockholders in ordinary corporations have as many votes as they own shares of voting stock. They use these votes to elect directors at the annual stockholders meeting.

Directors decide policy and hire key staff members to manage the corporation in line with the policy. This staff is responsible for managing the firm's daily operation. It informs the board of goals and objectives achieved. The key staff hires operating employees.

We found corporations operating grocery stores, telephone companies, farm machinery companies, and other kinds of business firms. Corporations touch the families' welfare at many points through the goods and services which they provide. In dollar terms, more business is carried on in the United States through corporations than through all other forms of business.

Speaker A

(Slide 12) **Ordinary Corporations** are established to make a profit for stockholders by selling goods or services. These profits are paid stockholders in the form of dividends in proportion to shares of stock held by each.

Speaker B

(Slide 13) **Cooperative Corporations** are a special kind of corporation. While cooperatives are found in all segments of our economy, they are especially valuable to farmers in this country.



Farmer Cooperative Service estimates that approximately 28 percent of all farm commodities are marketed through cooperatives. More than 15 percent of production supplies and equipment used by farmers are purchased through cooperatives.

Cooperatives are formed by groups of people who need products or services which are not readily available in their community. To get the desired goods or services they form a cooperative.

Most cooperatives elect to incorporate. If unincorporated, they have a legal status somewhat similar to a partnership.

Speaker A

(Slide 14) All cooperatives have three fundamental characteristics in common.

The *first characteristic* is democratic member-patron control—control by people using the cooperative. Cooperative members in most instances have one vote irrespective of capital invested or volume of patronage. Voting gives members a voice in controlling their own business.

Speaker B

The *second characteristic* stresses operating at cost. Any excess of revenue over expenses at the close of the fiscal year is divided among member-patrons in proportion to the amount of their business transactions with the cooperative. This is called a patronage refund. At least 20 percent of patronage refunds must be returned to patrons in cash. Remaining portions may be credited to patrons but retained by the cooperative to provide additional capital.

The *third characteristic* is limited returns on member invested capital. It provides that members shall receive interest type payments only for use of money they have invested in their cooperative. Some cooperatives pay no interest on member capital invested.

Speaker A

At present there are nearly 8,400 farmer buying and selling cooperatives in the United States. Typical of these are local farm supply associations, cooperative creameries, cooperative grain elevators, and livestock marketing cooperatives.

There are also about 1,600 farmers' mutual fire insurance companies, more than 700 national farm loan associations, about 485 local production credit associations, almost 1,000 rural electric cooperatives, and about 7,700 mutual irrigation companies.

Speaker B

Business Firms Supply Needed Goods and Services.

(Slide 15) **Food** concerns everyone of us at least three times daily.



Father, mother, sister, brother all need wholesome food. Sometimes this food grows near home and can be consumed as produced. Sometimes it requires expensive processing, and must be transported many miles to reach the family table. In any case, the organized efforts of many people are needed to provide us with food and goods and services when we need them, where we need them, in a form we can use and at a price we can afford to pay.

(Slide 16) For example, milk is produced by all types of business organizations—individual farmer, partnership, or corporation. The milking machine and equipment are manufactured and assembled in corporation plants. They are sold to farmers through a business firm which may be any one of three types.

Two-thirds (67 percent) of the milk is processed and sold through a cooperative milk plant. Fluid milk may be delivered to the door or bought through a grocery store. The grocery store may be one of three types of firms. If it is bought in an individually owned grocery store, the grocer may own membership in a cooperative wholesale through which he obtains other groceries. Or the grocery where the milk is purchased may be a consumers cooperative grocery.

Speaker A

(Slide 17) Every family needs **Clothing**.



Consider clothes made from cotton, for example. Cotton is usually produced on individually owned farms. The seed and fertilizer to grow the cotton, the insecticide to control insects, and the herbicide to defoliate the plant for harvest may be bought at a cooperative supply store.

The cotton might well be picked by a machine manufactured by an ordinary corporation and sold to the farmer through any one of three types of firms. Cotton may be separated from seed by a cooperatively owned gin.

Chances are good that the cotton will be stored in a cooperative warehouse and sold through a cooperative marketing association.

(Slide 18) Wool is often brought by producers to a central location and sold by a cooperative. The cotton or wool we are wearing today probably was sold to an ordinary corporation to be spun into yarn and woven into cloth. Corporations probably manufactured the clothing and a local independent merchant or corporation department store sold us the clothes.

Speaker B

(Slide 19) **Homes** provide shelter.

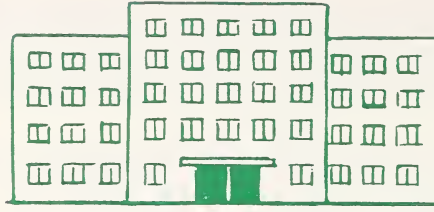


To build homes involves dozens of business enterprises. Assistance is needed from lumber yards, brick yards, hardware dealers, glass factories, and many other suppliers and manufacturers.

Home construction provides jobs for architects, excavators, carpenters, brick layers, plasterers, electricians, plumbers, painters, paperhangers, landscape gardeners, and other tradesmen. Individual business firms, partnerships, and corporations of both kinds all contribute.

(Slide 20) Housing cooperatives are found in many cities. These cooperatives frequently save members money by making bulk purchases of materials and equipment, and by utilizing services of one architect and general contractor. They help to procure finances and supervision. Farm homes may be built with construction materials bought through supply cooperatives.

(Slide 21) **Medical Care** for our families is another important service.



Each type of business organization makes its contribution. Professional men such as our family doctor, dentist, or optician usually operate as individual businessmen or as partners. However, doctors will sometimes form corporations to operate clinics or hospitals.

(Slide 22) Group health cooperatives are organized in many communities to provide economical medical care for members. These cooperatives employ staffs of doctors; they provide periodic medical examinations for all members, promote preventive medicine, and foster good health practices. In some instances they operate hospitals.

Speaker B

Not all services our community needs are provided by private business firms. Other organizations help to make our community prosperous and its people happy.

Some of these are tax-supported. Our local, county, State, and national governments all provide services such as police assistance, fire protection, education and training, and postal service.

Other important sources of services in our community are civic, fraternal, and religious organizations. They get their money from members or other public spirited people. Business firms, tax-supported agencies, and fraternal and religious organizations are entirely separate from each other. They help to round out our community life by serving people.

Speaker A

(Slide 23) **Transportation** is vital to our modern communities.



Transporting people to work and farm products and other commodities to market is a huge industry, employing millions of people.

(Slide 24) Most families own an automobile. Many farmers own one or more trucks. These motor vehicles are manufactured by corporations. Many of them are sold through individually owned business firms.

Most railroads, motor truck lines, ocean steamers, and airlines are owned and operated by corporations. Some motor lines and river transportation firms are individually owned concerns. City parcel delivery service may be provided by any one of three types of firms, often cooperatively employed by merchants.

Construction and maintenance of highways has become a public responsibility paid for out of taxes. Except for certain toll bridges and turnpikes, our highways are open free of cost to all travelers. Major rivers and harbors are kept navigable at public expense as a public service.

Mail trucks are owned and operated by the U.S. Government, although most intercity and State transportation of mail is contracted to railroad, bus, truck, airline, or steamship firms.

All types of business firms, including government services, contribute to our transportation system. Together they have developed one of the finest transportation systems in the world.

Speaker B

(Slide 25) **Recreation** is needed by everyone.



Tennis courts may be owned by individuals, community clubs, or corporations. Adequate recreational facilities must be planned, financed, and managed.

(Slide 26) There are many forms of recreation—tennis, baseball, basketball, swimming, horseback riding, and dozens of others. Some of our best recreation is provided at little or no expense through cooperative effort and planning by community and church groups.

Commercialized recreation, as illustrated by bowling alleys, swimming pools and theaters, requires considerable investment. Many of these services are provided by individuals, partnerships, or ordinary corporations whose principal aim is to make profits for their owners.

Speaker A

(Slide 27) **Churches** offer community facilities for family worship and enjoyment.



Churches provide families places of worship, high ideals, and a philosophy of life. They pave the way for purposeful living.

(Slide 28) Our churches often have pioneered in social action. They sponsored many of our first schools and colleges. They started some of our first hospitals. They supported our first orphanages. They have befriended the needy.

Speaker B

(Slide 29) **Schools** are a major community source of knowledge.



Schools prepare young people for a useful life, training them to be self-supporting, law-abiding citizens. This makes our schools an important element in our community life.

Most schools began as private or church-sponsored ventures. Later, as demands for education became greater, the community, the State, and the Federal government assumed more and more responsibility for educating its people, and public schools are now tax-supported. Public school facilities are provided in many States from kindergarten through university level.

(Slide 30) However, private schools of all types are also available. Some private schools are non-profit endowed institutions. Others are church-controlled and supported. Many vocational and professional schools are operated as corporations for profit such as beauty operator and barber schools, business schools, and others. Many business firms offer in-service training courses for employees. A number of community kindergartens and nurseries are run as cooperative ventures.

Speaker A

(Slide 31) We have seen how **All Types of Firms Provide Our Families With all Types of Products and Services.**



They provide food, clothing, homes, medical care, transportation, recreation, churches, schools, and many other services.

All types of business firms—when properly managed—contribute to the welfare of our community.

Speaker B

One Reason for America's Business Success is its large degree of freedom. This freedom did not just happen. America was founded by colonists seeking freedom. The spirit of enterprise and freedom has permeated our economy from the days of Jamestown and Plymouth.

We could enjoy even greater freedom than we do if everyone transacted business by the Golden Rule. But because we have not yet achieved this ideal, various devices have been developed by our government for controlling those who would take unfair advantage of others.

Generally, restraints or controls are limited to those necessary to protect the rights of others. For example, government inspects certain foods and regulates certain business activities to protect the public welfare. In such

instances, a maximum of freedom remains as long as health and property rights of citizens are adequately protected.

Speaker A

(Slide 32) **People Working Together** make America a desirable place to live. Our history books are full of accounts of early settlers helping one another. They joined hands to build their log cabins and to erect churches. They were able to establish permanent homes in America through mutual assistance.

(Slide 33) This willingness to work together is still a vital factor in our community life. It is characteristic of good neighbors everywhere.

Speaker B

(Slide 34) When **Individual Business Owners** are confronted with problems, they often find it wise to join hands with others in the same line of business.



This is equally true of farmers. Since individual farmers must buy and sell at favorable prices to have satisfactory incomes for their families, they often join with others in buying supplies and marketing products. About 5 out of every 6 farmers provide for some of their needs cooperatively. They gain advantage of group effort while maintaining a maximum of personal independence.

(Slide 35) The same is true for independent grocers, druggists, hardware dealers, and other individual businessmen. For example, when chain stores first came into prominence, many independent grocers became afraid they would be squeezed out of existence. They met this problem by organizing cooperative grocery associations. Through these they buy in large quantities, conduct

advertising campaigns, and gain many advantages enjoyed by chain stores. Today independent groceries are still thriving in most communities.

Whether on farms or in cities, business firms of all types find it helpful to join hands with others for educational purposes, to promote needed legislation, to advertise, and for other reasons. They hope to achieve through group effort those things which it would be impractical for each to do individually.

Speaker A

(Slide 36) **Partnerships** have the same problems as individuals. They need to work with others in similar manners.



(Slide 37) In addition, partners have problems of getting along well with one another. This calls for abundant understanding and good will.

Speaker B

(Slide 38) **Corporations** often work with others to supply America with food, clothing, shelter, automobiles, and other items.



(Slide 39) For example, garment manufacturers organize shipping associations to combine shipments of clothing to keep down cost of transportation.

Many newspapers belong to the Associated Press, a cooperative news-gathering agency. Numbers of hardware firms have found it profitable to purchase merchandise through wholesale hardware supply cooperatives.

Business corporations frequently band together to promote better business methods, exchange ideas, conduct advertising campaigns, and help one another in other ways.

Speaker A

(Slide 40) **Cooperative Corporations** frequently benefit by working with other cooperatives and related business firms.



Associations are able to serve their members more efficiently by belonging to federated cooperatives.

These large regional organizations buy and sell in quantities, sponsor uniform accounting practices, foster employee training programs, publish general membership newsletters, and achieve other common objectives.

Cooperatives have effected substantial savings by arranging for joint ownership of feed mills, fertilizer plants, and other processing facilities.

Cooperatives frequently band together for educational activities, for better public relations, and for other common causes.

(Slide 41) All types of business organizations can render better service to their customers when they have learned the importance of working together on matters of common interest.

Our private enterprise system is at its best when all business firms respect the contribution each makes to community life.

Speaker B

(Slide 42) **Natural Resources** are an **Important Contributing Factor** to our national welfare in America.

These resources include our fields, timberland, grasslands, mines, oil fields, harbors, and water power. These and other natural resources have afforded our nation many advantages.

Other nations have had similar resources but some have let them slip away. Others have had potential riches but lacked personal freedom and opportunity to utilize them. The American Private Enterprise System has produced much and has widely shared these resources.

(Slide 43) Our private enterprise system has encouraged business establishments of all types to develop and use these resources. Individual businessmen, partnerships, ordinary and cooperative corporations can conserve these resources by using them wisely. This requires everyone's help. (Start soft background music of "God Bless America.")

Understanding of our private enterprise system by each generation of Americans is the key to preserving freedom in the United States. When rural and urban people work together toward this end, all our families have a better chance of leading satisfying lives—today and in days to come.

Speaker A

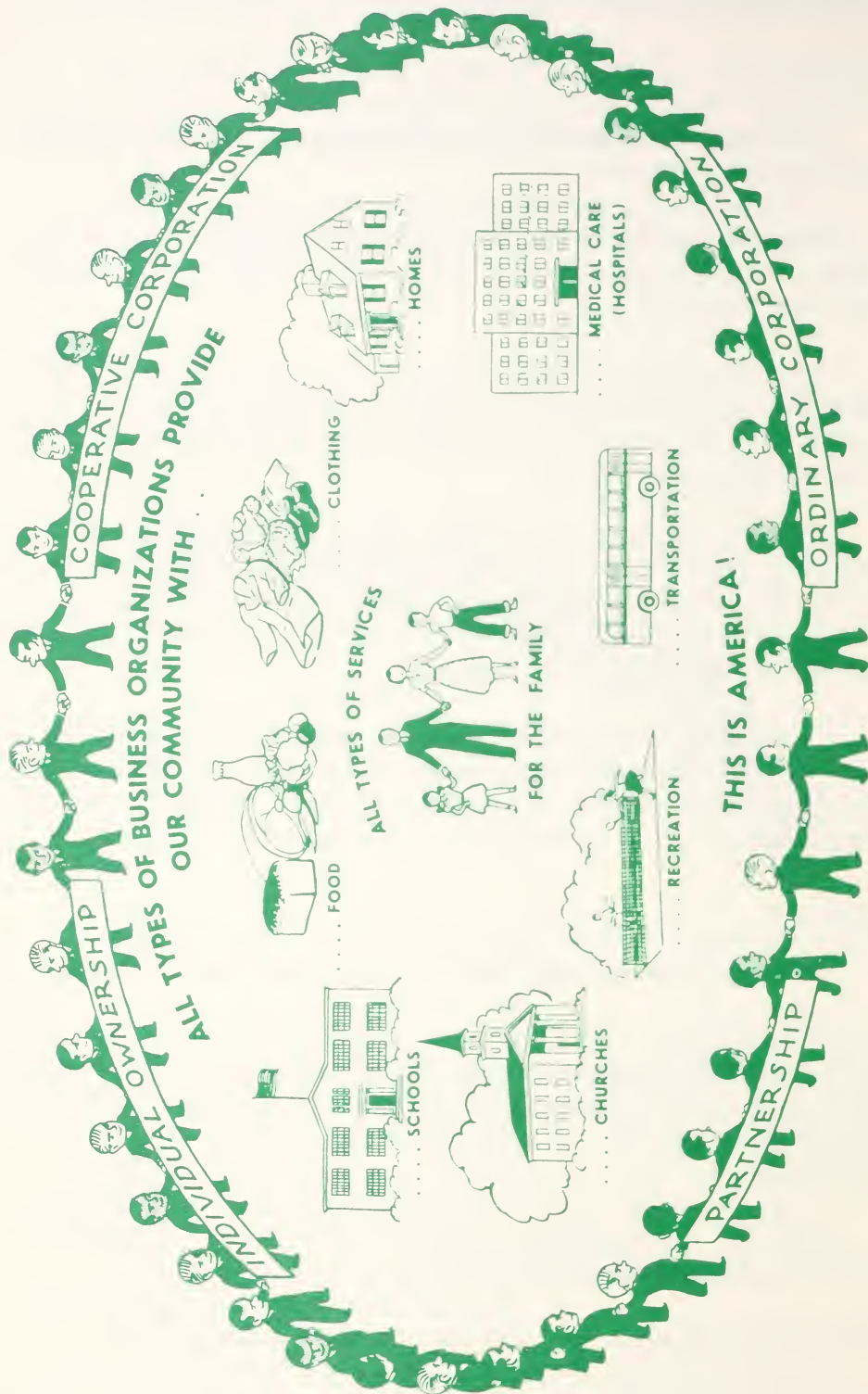
(Slide 44) **People Working Together, Plus Resources, Equal a Great Nation!**

(Slide 45) This is the spirit of cooperation which has helped build America! This is the system that has helped satisfy our cultural and social desires! This is the system that has contributed to our spiritual well-being! This is the combination of men and resources that enables us to face the future with confidence!

(Slide 46) **This is America!** A land of freedom! A land of opportunity! Your land and mine! (Slide 47) (Slide 48)

(The song, "God Bless America," provides an excellent program closing.)

THE AMERICAN PRIVATE ENTERPRISE SYSTEM



PEOPLE WORKING TOGETHER — RESOURCES — A GREAT NATION!

METHODS OF DOING BUSINESS UNDER PRIVATE ENTERPRISE

FEATURES COMPARED	TYPES OF BUSINESS			
	INDIVIDUAL	PARTNERSHIP	CORPORATION	
			ORDINARY	COOPERATIVE
1. Who uses the services?	Non-owner customers	Generally non-owner customers	Generally non-owner customers	Chiefly the owner patrons
2. Who owns the business?	The individual	The partners	The stockholders	The member-patrons
3. Who votes?	None necessary	The partners	Common stock-holders	The member-patrons ¹
4. How is voting done?	None necessary	Usually by partners' share in capital	By shares of common stock	Usually one-member one-vote
5. Who determines policies?	The individual	The partners	Common stock-holders and directors	The member-patrons and directors
6. Are returns on ownership capital limited?	No	No	No	Yes--8% or less (usually less, if any) ¹
7. Who gets the operating proceeds?	The individual	The partners in proportion to interest in business	The stockholders in proportion to stock held	The patrons on a patronage basis ¹

¹ Basic cooperative characteristics.



OTHER PUBLICATIONS AVAILABLE

Basic Cooperative Features. Bulletin Reprint 3. Joseph G. Knapp

Agricultural Cooperation—Pioneer to Modern. Bulletin Reprint 4. Martin A. Abrahamsen

Cooperative Business Training for Farm Youth. Circular 1. Oscar R. LeBeau and John H. Heckman

Ways Farmers Do Business. Educational Aid 8. Oscar R. LeBeau

Cooperatives and Their Business Neighbors. Educational Aid 9. C. H. Kirkman, Jr.

Farmer Cooperatives in Our Community. Educational Circular 12. A. W. McKay

How to Start a Cooperative. Educational Circular 18. Irwin W. Rust

Cooperatives in Agribusiness. Educational Circular 33.

“Mr. Chairman—” Information Series 6. Irwin W. Rust

Farmer Cooperatives...Farm Business Tools. Agricultural Information Bulletin 275. Beryle E. Stanton

A copy of each of these publications may be obtained upon request while a supply is available from—

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